

# **Department of Economic Security /Division of Developmental Disabilities (DES/DDD) Actuarial Memorandum**

## **I. Purpose**

The purpose of this actuarial memorandum is to demonstrate that the capitation rates were developed in compliance with 42 CFR 438.6(c). It is not intended for any other purpose.

This memorandum presents a discussion of the adjustment to the capitation rates effective from July 1, 2014 through June 30, 2015 (CYE 15).

Arizona Health Cost Containment System (AHCCCS) intends to review and possibly update these capitation rates effective October 1, 2014 to include changes to the acute care and behavioral health services categories of the capitation rates. This rate update for July 1, 2014 does not include adjustments for anticipated reimbursement changes or program changes with effective dates after July 1, 2014. If appropriate, AHCCCS will include these adjustments in the rates updated effective October 1, 2014.

The Affordable Care Act (ACA) places an annual fee on the health insurance industry nationwide including most Medicaid health plans effective January 1, 2014. The fee will be allocated to health insurers based on their respective market share of premium revenue in the previous year. Due to the uncertainty of the actual fees and other unknowns, AHCCCS will not be adjusting the capitation rates for this fee at this time. AHCCCS intends to make a revision once the impacts are known, if applicable to DDD's sub-contractors.

## **II. Overview of Rate Setting Methodology**

The contract year ending 2015 (CYE 15) rates were developed as a rate rebase from the previously approved contract year ending 2014 (CYE 14) capitation rates.

Historical Medicaid managed care encounter data was used as the primary data source in development of the trends. Other data sources used in setting the actuarially sound rates include financial statements, supplemental information from DDD, Center for Medicare and Medicaid Services (CMS) National Health Expenditure (NHE) Report estimates and AHCCCS case management model.

Trend rates were calculated from encounter data and other sources on a unit cost and/or utilization basis by category of service (COS) and a cap was applied to limit the negative and positive trends to a reasonable level. These adjustments also include state mandates, court ordered programs and other program changes, if necessary.

Ideally, the experience data should be analyzed by different rate cells which are comprised of members with similar risk characteristics. However, segregating the DDD population into different rate cells would lead to a statistical credibility problem due to the statewide disbursement of the relatively small membership base. DDD will have two separate rates – a regular DDD rate and a Behavioral Health rate.

The experience only includes DDD Medicaid eligible expenses for DDD Medicaid eligible individuals. In addition, the experience includes reinsurance amounts and share of cost.

The contract between AHCCCS and DDD specifies that DDD may cover services for members which are not covered under the State Plan; however those services are not included when setting capitation rates. AHCCCS will not include uncovered services in the DDD rates.

The general process in developing the rates involves trending the base data to the midpoint of the effective period, which is January 1, 2015. The next step involves the deduction of the reinsurance offsets and share of cost offset. Following this calculation, the projected case management, administrative expenses, risk contingency margin and premium tax are added to the projected claim per member per month (PMPM) to obtain the capitation rates. Each step is described in the sections below.

### **III. Base Period Experience**

AHCCCS used historical yearly encounter data for the time period from July 1, 2010 through December 31, 2013. The data was reviewed for accuracy, timeliness and completeness through encounter validation studies as well as studies comparing the encounter data to the Contractors' financial statements. Adjustments to the base data included, but were not limited to the following: completion factors, seasonality factors, historical programmatic changes and historical fee for service provider rate changes. Multiple years of data were used for projecting trends, but only the most recent data period SFY 14 (07/01/13 – 12/31/13) was used for the base period.

### **IV. Projected Trend Rates**

The trend analysis includes both the financial data experience and the encounter data experience. Financial data experience is from July 2009 through December 2013. Encounter data experience is from July 2010 through December 2013. The financial data trends were examined using both year over year and quarterly regression analysis. The encounter data trends were examined using monthly regression analysis, quarterly regression analysis and year over year data. In addition, standard sources of health care cost trends were examined, including the 2013 Actuarial Report on the Financial Outlook for Medicaid and the National Health Expenditure (NHE) Report published by CMS. The final utilization trends and historical unit cost

trends were selected based on a methodological blend of actuarial judgment and empirical methods. The projected unit cost trends were selected based on changes to provider rates. The projected unit cost rates reflect a two percent increase for developmental disabilities home and community based (HCBS) providers with an effective date of July 1, 2014.

The annual historical trend rates used in projecting the claim costs are identified in Table I. These trends do not reflect the two percent HCBS provider rate increase. No adjustments have been made to the Acute Care and Behavioral Health service categories. These two categories will be reviewed for a possible October 1, 2014 capitation rate adjustment.

**Table I: Annual Historical Trend Rates**

Service Category	DDD Rate	Behavioral Health
Institutional	0.15%	N/A
HCBS	1.78%	N/A
Acute Care	0.00%	N/A
Behavioral Health	N/A	0.00%

#### **V. State Mandates, Court Ordered Programs, Program Changes and Other Changes**

There are no new program changes or other mandates included in the rates at this time.

#### **VI. Projected Gross Claim PMPM**

The base utilization, unit costs and net claims PMPMs are trended forward and adjusted for state mandates, court ordered programs and program changes occurring after the end of the base period to arrive at the CYE 15 utilization, unit costs and net claims PMPMs for each component.

#### **VII. Projected Net Claim PMPM**

The projected gross claim PMPMs were adjusted for the recipients' share of cost (SOC) to obtain the net claim PMPM. The share of cost is \$5.50 for CYE 15. The share of cost was estimated based off of actual DDD SOC data, and was rebased for CYE 15. NOTE: the Reinsurance offset is included in the acute care component of the DDD rates. The acute component, reinsurance offset and behavioral health components are not being adjusted at this time. The projected net claim PMPMs are included in Table II.

**Table II: Projected Net Claim PMPM**

Service Category	Projected CYE 15 Claim Cost PMPM	
	DDD Rate	Behavioral Health
Institutional	\$ 119.82	N/A
HCBS	\$ 2,423.06	N/A
Acute Care	\$ 367.40	N/A
Program Changes	\$ -	\$ -
Behavioral Health	N/A	\$ 101.62
Total	\$ 2,910.29	\$ 101.62
Less Share of Cost	\$ (5.50)	N/A
<b>Net Claim Cost</b>	<b>\$ 2,904.79</b>	<b>\$ 101.62</b>

## **VIII. Case Management**

For DDD members the CYE 15 case management PMPM was developed using the AHCCCS case management model as well as looking at financials and supplemental case management cost reports from DDD. This is a similar methodology to previous years. The CYE 15 case management PMPM for the DDD population is \$153.62.

For the targeted case management (TCM) PMPM the AHCCCS case management model was used as well as actual cost information for this population provided by DDD. The assumptions in the model were refined by using data specific to this population. The CYE 15 TCM PMPM is \$123.61.

## **IX. Coordination of Benefits**

Inherent in the encounter and financial data are unit cost trends which incorporate Contractors' Coordination of Benefits (COB) activities. AHCCCS provides Contractors with verified commercial and Medicare coverage information for their members which Contractors utilize to ensure payments are not made for medical services that are covered by the other carriers. When Contractors make a payment to cover members' coinsurance, deductibles, or Medicaid-covered services that are not covered by the other carriers, they submit encounters containing these reduced amounts. From SFY 2008 through SFY 2013, encounter-reported COB cost avoidance grew by greater than 156%, from \$16 million to \$42 million. Additionally, DDD cost-avoided more than \$6 million in SFY ending 2013 in additional claims for which the Contractor had no financial obligation after the private insurance or Medicare payment was made. Consequently, no encounters were submitted to AHCCCS and therefore those services are excluded completely from capitation expenditure projections. AHCCCS continues to emphasize the importance of COB activities with DDD.

## **X. Administrative Expenses and Risk Contingency**

For CYE 15 administrative expense AHCCCS analyzed DDD's financial statements as well as supplemental information provided by DDD. The CYE 15 administrative expense for DDD is remaining flat at \$180.50. The risk contingency for DDD is 1.00%.

The Behavioral Health administrative expense is remaining the same and will be reviewed as part of a possible October 1, 2014 rate adjustment. The Behavioral Health risk contingency is 1.00%.

## **XI. Proposed Capitation Rates and Their Impacts**

The proposed capitation rates equal the sum of the projected net claim PMPM (in Section VII), the projected case management (in Section VIII) and administrative expenses and risk contingency PMPM (in section X), divided by one minus the two percent premium tax. The premium tax for the behavioral health component is included in the DDD capitation rate. Table III shows the current and proposed capitation rates and the budget impact from CYE 14 (10/01/13 capitation rate) to CYE 15 using CYE 15 projected members.

**Table III: Proposed Capitation Rates and Budget Impact**

Rate Cell	Projected CYE 15 Member Months			Based on Projected CYE 15 Member Months			
		CYE 14 (10/1/13) Rate	CYE 15 Rate	Estimated CYE 14 (10/1/13) Capitation	Estimated CYE 15 Capitation	Dollar Impact	Percentage Impact
DDD	325,258	\$ 3,181.77	\$ 3,338.97	\$ 1,034,895,312	\$ 1,086,025,865	\$ 51,130,553	4.94%
Behavioral Health	325,258	\$ 118.14	\$ 118.14	\$ 38,424,642	\$ 38,424,642	\$ -	0.00%
Targeted Case Management	52,394	\$ 115.86	\$ 123.61	\$ 6,070,369	\$ 6,476,556	\$ 406,187	6.69%
Total				\$ 1,079,390,323	\$ 1,130,927,063	\$ 51,536,740	4.77%

*BH does not reflect premium tax*

## **XII. CMS Rate Setting Checklist**

### **1. Overview of rate setting methodology**

#### **AA.1.0: Overview of rate setting methodology**

AHCCCS is performing a rebase from the previously approved contract year ending 2014 (CYE 14) under 42 CFR 438.6(c). Please refer to Section II.

#### **AA.1.1: Actuarial certification**

Please refer to Section XIII.

#### **AA.1.2: Projection of expenditure**

Please refer to Section XI.

#### **AA.1.3: Procurement, prior approval and rate setting**

This is a sole source contracting method, between AHCCCS and DES/DDD.

#### **AA.1.5: Risk contract**

There is no risk sharing between AHCCCS and DES/DDD, in addition to the reinsurance contract. DES/DDD is responsible for all losses, except reinsurance and share of cost.

#### **AA.1.6: Limit on payment to other providers**

AHCCCS makes no additional payments to providers, except supplemental payments to hospitals including Disproportionate Share Hospital (DSH) payments, Graduate Medical Education (GME) payments, and Critical Access Hospital payments. GME is paid in accordance with state plan. DSH and Critical Access are paid in accordance with the Waiver Special Terms and Conditions. None of the additional payments to providers were included in the capitation calculation.

#### **AA.1.7: Rate modification**

Please refer to Sections II through V and VII through X.

### **2. Base Year Utilization and Cost Data**

#### **AA.2.0: Base year utilization and cost data**

Please refer to Sections II and III.

#### **AA.2.1: Medicaid eligibles under the contract**

The data includes only those members eligible for managed care.

#### **AA.2.2: Dual Eligibles (DE)**

There are dual eligibles.

#### **AA.2.3: Spenddown**

Not applicable, not covered under this contract.

#### **AA.2.4: State plan services only**

The contract between AHCCCS and DDD specifies that DDD may cover additional services. Non-covered services were excluded from the base data and not included in the rates.

#### **AA.2.5: Services that can be covered by a capitated entity out of contract savings.**

Same as AA.2.4

### **3. Adjustments to the Base Year Data**

#### **AA.3.0 Adjustments to base year data**

Please refer to Sections II, III and IV.

#### **AA.3.1 Benefit differences**

There are no changes to the covered benefits. Therefore, no adjustment was made.

#### **AA.3.2 Administrative cost allowance calculation**

Please refer to Section X.

#### **AA.3.3 Special populations' adjustment**

It is anticipated that the risk characteristics of this population will not change materially from the base period to the effective period of the capitation rates. Therefore, no adjustment was made.

#### **AA.3.4 Eligibility Adjustments**

No adjustment was made.

#### **AA.3.5 DSH Payments**

No DSH payment was included in the capitation development.

#### **AA.3.6 Third party Liability (TPL)**

This is a contractual arrangement between AHCCCS and its Contractors.

#### **AA.3.7 Copayments, coinsurance and deductible in the capitated rates**

Not applicable, member cost sharing is not required.

#### **AA.3.8 Graduate Medical Education (GME)**

The experience excludes any payment for GME.

#### **AA.3.9 FQHC and RHC reimbursement**

The experience excludes any additional payments that FQHCs may receive from the state.

#### **AA.3.10 Medical cost/ trend inflation**

Please refer to Section IV.

#### **AA.3.11 Utilization adjustment**

Other than trend, no specific adjustment was made to utilization.

#### **AA.3.12 Utilization and cost assumptions**

Not applicable since actual experience was used.

#### **AA.3.13 Post-eligibility treatment of income (PETI)**

Not applicable, not required to consider PETI.

#### **AA.3.14 Incomplete data adjustment**

The encounter data was not fully complete. AHCCCS applied completion factors to the encounter data. The audited financial statements may include outstanding claim liabilities, which were audited and believed to be reasonable by DDD auditors.

### **4. Establish Rate Category Groupings**

#### **AA.4.0: Establish rate category groupings**

Please refer to Section II.

#### **AA.4.1: Age**

Please refer to Section II.

#### **AA.4.2: Gender**

Please refer to Section II.

#### **AA.4.3: Locality/region**

Please refer to Section II.

#### **AA.4.4: Eligibility category**

Please refer to Section II.

## **5. Data Smoothing, Special Populations and Catastrophic Claims**

### **AA.5.0: Data smoothing**

Please refer to Sections II, III, IV and V.

### **AA.5.1: Special populations and assessment of the data for distortions**

Data was not adjusted for special populations.

### **AA.5.2: Cost-neutral data smoothing adjustments**

Please refer to Section VII.

### **AA.5.3: Risk-adjustment**

There is no risk adjustment.

## **6. Stop Loss, Reinsurance, or Risk-Sharing arrangements**

### **AA.6.1: Commercial reinsurance**

There is no commercial reinsurance.

### **AA.6.2: Simple stop loss program**

Please refer to Section VII.

### **AA.6.3: Risk corridor program**

There is no risk sharing between AHCCCS and DDD, except the stop loss program (i.e. Reinsurance). DDD assumes all other risks.

## **7. Incentive Arrangements**

There is no incentive arrangement between AHCCCS and DDD.

### **XIII. Actuarial Certification of the Capitation Rates**

I, Windy J. Marks, am an employee of Arizona Health Care Cost Containment System (AHCCCS). I am a Member of the American Academy of Actuaries. I meet the qualification standards established by the American Academy of Actuaries and have followed the practice standards established from time-to-time by the Actuarial Standards Board.

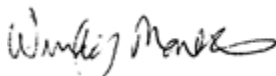
The rates were developed using generally accepted actuarial principles and practices and are considered to be actuarially sound. The rates were developed to demonstrate compliance with the CMS requirements under 42 CFR 438.6(c) and are in accordance with applicable laws and regulations. The rates are appropriate for the Medicaid populations covered and Medicaid services to be furnished under the contract. The rates may not be appropriate for any other purpose. The documentation has been included with this certification. The actuarially sound capitation rates that are associated with this certification are effective for the twelve-month period beginning July 1, 2014.

The actuarially sound capitation rates are a projection of future events. It may be expected that actual experience will vary from the values in the rates.

In developing the actuarially sound capitation rates, I have relied upon data and information provided by DES/DDD and the AHCCCS internal databases. I have accepted the data without audit and have relied upon the DES/DDD auditors and other AHCCCS employees for the accuracy of the data.

This actuarial certification has been based on the actuarial methods, considerations, and analyses promulgated from time to time through the Actuarial Standards of Practice by the Actuarial Standards Board.

This certification letter assumes the reader is familiar with the DDD program, Medicaid eligibility rules and actuarial rating techniques. It is intended for AHCCCS, DES/DDD and CMS and should not be relied upon by third parties. Other readers should seek the advice of actuaries or other qualified professionals competent in the area of actuarial rate projections to understand the technical nature of these results.



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Windy J. Marks

05/30/14

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Date

Fellow of the Society of Actuaries  
Member, American Academy of Actuaries